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THE DEVELOPMENT AND PRESENT STATUS OF MARINE INSURANCE IN THE UNITED STATES

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In discussing marine insurance one deals with a subject far more technical and complex than any other system of indemnity. Fire insurance provides against loss occasioned by a single occurrence. Life insurance insures against an event the occurrence of which is inevitable, and the risk concerning which has been approximately measured by the application of the law of average to accumulated data. Marine insurance, however, undertakes to indemnify a person against the loss of ship, goods, freight, anticipated profits, or any other insurable interest, through any of the numerous perils and adventures connected with navigation, such as the "perils of the sea," fires, collisions, pirates, thieves, seizures and restraints, jettisons, barratry of the master or mariners, and all other perils, losses or misfortunes which might be assumed by the policy.

While determined efforts have been made for years, and with success, to place the prosecution of life and fire insurance upon a scientific basis, this can scarcely be said of marine underwriting. Some of our leading marine companies, it is true, do possess a large mass of experience which is used as a basis in computing rates. Yet it is also true that, taking the business as a whole, there is no other branch of insurance in which success is so largely dependent upon the native sagacity, the keenness for observation, and the general specialized ability of the individual underwriter to know not only men, but the effect of climate, seasons, geographical localities and numerous other considerations upon any of a large number of risks, as in marine insurance. To a very large extent the business is inherently a system of estimates, and the importance of the personal qualities of the underwriter cannot be overemphasized.

It is this complex nature of the business which is no doubt responsible for the fact that marine insurance is to-day a comparatively little-known business to the general public. Consult any of our leading insurance journals, and a score or more of pages will be found dealing with other lines of insurance for one dealing with this, the oldest and possibly the most interesting, and, in many particulars, equally important branch. This comparative absence of notice, however, should not cause us to overlook the fact that in this country alone between six and seven billion dollars worth of property is insured by marine companies, and that it is through this form of insurance that participation in commerce could become general and continuous. It is not to be supposed that people would risk their fortunes in enterprises surrounded with so many dangers as mercantile ventures were it not for the indemnifying contract, which in distributing the loss of a few among the many, removes the sense of fear and makes the mercantile industry one of certainty in its results instead of a half-gambling enterprise. As a prominent writer on mercantile affairs correctly states: "Marine insurance bears to commerce the relation of body-guard rather than of mere servile attendant. . . . Of the active forces which influence, control, or forbid the employment of shipping, none have greater effect than the marine insurance power."¹ Marine underwriting may indeed be characterized as just as much an instrumentality of commerce and almost as necessary to navigation as the ship itself. It is universally recognized as a most important factor in trade and transportation, and in modern commerce is of the utmost utility. To this may be added that, as the methods of conducting oversea trade are being constantly transformed, marine insurance is becoming an increasingly important adjunct of commerce. As Mr. Gow correctly says: "When large transactions are worked, as is now extremely common, with credits and margins, the amount of the premium of insurance is often the item that decides whether some venture will be attempted or not. The protection which marine insurance affords is now usually regarded as an absolute necessity to the oversea merchant; and thus by degrees marine insurance has become in one shape or another an integral, almost an essential, factor in oversea commercial transactions."²

¹ William W. Bates. *The American Marine*, p. 219.

² William Gow. *Marine Insurance*, p. 2.

Early History.

The practice of marine insurance may be regarded as the earliest form of indemnity, antedating other kinds of insurance by many hundred years. Even centuries before the introduction of marine underwriting as we know it to-day, the commercial nations of the ancient world secured the benefits of insurance through the so-called "loans on bottomry," *e. g.*, loans made on the security of the ship and cargo at high rates of interest, and with the understanding that the principal with interest was to be repaid only in the event of the safe arrival of the vessel, and that the lender was to forfeit both principal and interest in case of loss. Instead, then, of paying a premium before starting the voyage, as is now the case, and receiving the indemnity after a loss is incurred, the insured under the bottomry loan received the indemnity in advance, and only returned the same plus a premium after the safe termination of the voyage.

Such loans on bottomry, we are told, were especially sought after and entered into by members of the Roman nobility, who, too proud to interest themselves directly in commerce and yet desirous of obtaining large interest returns, could here find a convenient method of investing their funds profitably, and at the same time avoid engaging personally in mercantile pursuits. That such loans were prevalent among the commercial peoples of early history is attested by the numerous references concerning such transactions which are found in the judicial and other literature of the Romans. In an edict of the Roman Emperor Justinian of A. D. 533, for example, the rate of premium on such loans was fixed at twelve per cent., implying at least that the practice must have been very general at that time. Though indirect in form and partaking merely of the nature of quasi-insurance, this method of indemnifying loss by means of loans was nevertheless real insurance in its results. It should be borne in mind, however, that this method of indemnification is the only one approximating modern insurance of which antiquity furnishes us any clear and direct evidence. It might seem remarkable, indeed, that nations so far advanced in their legal systems as were the Mediterranean countries, and with such extensive commercial interests, should have left us no direct and conclusive evidence to show that they at all understood marine insurance as it is now practiced.

Marine insurance as it exists to-day originated at a much later date than the loan on bottomry. Evidence seems to show that it had its start in Italy, especially among the Lombard merchants, at the close of the twelfth and the beginning of the thirteenth century. From thence it spread to Flanders, Portugal and Spain during the fourteenth and fifteenth centuries, and was finally carried to England by the Lombards in the early part of the sixteenth century. As early as 1601 the British Parliament declares marine insurance to have existed from time immemorial (43 Elizabeth, C. 12), and describes it as a means "whereby it cometh to pass that upon the loss or perishing of any ship there followeth not the undoing of any man, but the loss lighteth rather easily upon many than heavy upon few, and rather upon them that adventure not than upon those who do adventure; whereby all merchants, especially those of the younger sort, are allured to venture more willingly and more freely."

Following its introduction in England, marine insurance spread to the various commercial centers of Europe, its application becoming very general, if judged from the consideration given to the subject in the numerous commercial codes and ordinances of the fifteenth, sixteenth and seventeenth centuries. Finally, there followed the epoch-making *Ordinance de la Marine* of 1681, which became the model for practically all the modern codes of commercial law on the continent, including the law of marine insurance. In England, on the contrary, the development of the law concerning sea insurance did not begin to assume such clear and definite form until almost the middle of the eighteenth century. It was then that Lord Mansfield, in his efforts to formulate the commercial law of England, began to draw his legal principles very largely from the commercial ordinances and codes of the continent with a view of applying them to English conditions. His decisions practically constitute the foundation of marine insurance law in England, and in turn have become the basis of American decisions. As supplementing this lengthy and continuous legal development, it is important to note that the Lloyds policy prevailing in England to-day is very similar to the policy which was in use in the early part of the seventeenth century, and that many features of the English policy have in turn been incorporated in the policies used in America. In other words, we have in marine insurance several centuries of usage and judicial interpretation relating to the signification of a single document.

Turning now to the financial development of the business as distinct from the legal, marine insurance has naturally reached its highest efficiency in the United Kingdom. Its history in that country, whose merchant marine for many decades comprised nearly half of the ocean-going tonnage of the world, has been rendered famous by the close identification of the business with the world-renowned corporation of Lloyds. This gigantic institution had its origin in a mere seamen's coffee house, established by an Edward Lloyd near the middle of the seventeenth century. This enterprising and energetic man, besides making his coffee house a convenient place of meeting for merchants and seamen, also created an elaborate system of home and foreign correspondents to supply him with news from all the leading ports of the world concerning the movements and character of vessels for the information of his patrons. In fact, at first the underwriting of marine risks was a subordinate feature of his business. The systematic manner, however, in which maritime information was collected and disseminated soon won for him a large following, and made his coffee house, among the many others existing in London, the principal meeting place for merchants and professional underwriters who, unhampered by any rules or regulations, assembled there and transacted a general marine business. Thus it came to pass that Lloyds soon outgrew its early usefulness, was transferred in 1692 from its original location in Tower street to Lombard street, and finally, in 1774, to the Royal Exchange of London, and there developed into the chief center of marine insurance in the United Kingdom, and, for that matter, in the world.

From this account it is not to be inferred that marine insurance in the United Kingdom is confined to Lloyds or to British shipping. Prior to the beginning of the eighteenth century the business was, it is true, confined almost entirely to the plan of Lloyds, according to which individuals assumed risks upon the strength of their personal honesty and financial standing in the community. Indeed, it was the practice of various individuals subscribing their names to the insurance contract for a certain portion of the total risk that gave rise to the familiar term "underwriter." But gradually companies began to participate in the same business that Lloyds was pursuing. The movement seemed to gain strength rapidly, when, in 1720, the British government in return for a payment of £300,000

to the Exchequer limited the privilege of insuring marine risks to only two companies besides Lloyds, namely, the London Assurance Corporation and the Royal Exchange Assurance Corporation. Shortly after, however, this monopoly was removed and since then, especially during the nineteenth century, numerous corporations in London, Liverpool and Glasgow, with vast accumulated assets and far-reaching importance, have risen alongside the unique and unrivaled corporation of Lloyds, and, like that institution, have extended their influence to all corners of the earth. So effective, in fact, has the competition of the powerful insurance companies become that Lloyds, although yet the center of attraction in the marine business, has largely ceased to possess the dominating influence of former days. It is estimated that Great Britain to-day transacts about six-eighths of the sea insurance of the world, a proportion so large that one can look for an explanation only to the preponderating importance of Great Britain as a shipping nation.

The Organization and Purposes of Lloyds.

The supreme importance of Lloyds in marine insurance from an international standpoint justifies a brief explanation of its organization and purposes. Until quite recently, Lloyds was an unincorporated body where underwriters assembled and transacted business at will, subject to few or no regulations. In the year 1871, however, Lloyds became an incorporated organization, and, according to the act of incorporation, now exists for the threefold purpose of conducting an insurance business, of protecting the commercial and maritime interests of its members, and of collecting and disseminating information pertaining to shipping.

To obtain a clear view of how this threefold purpose is realized, it is essential to study the institution of Lloyds from two points of view, namely, the Intelligence Department and the Corporation of Underwriters. For the sake of convenience we may consider the Intelligence Department first, since the collection and diffusion of maritime information is a prime prerequisite to successful underwriting. Briefly described, this department consists of numerous agents situated in every part of the world, whose position is considered one of the highest honor and importance, and whose duty it is to promptly forward information to headquarters concerning

the arrival and departure of vessels, the occurrence of wrecks and accidents, or any other events which vitally affect shipping. As representatives of Lloyds, these agents are also required to render aid to masters of vessels in distress, to take charge of a wrecked vessel's stores and materials in order to avoid unnecessary loss, to adopt precautionary measures against dishonesty when it becomes necessary to repair ships, and in a general way to protect the interests of the underwriters. To supplement the efforts of these agents, Lloyds also desires the masters of vessels to report to the nearest Lloyds' agent any information of interest concerning other ships which they might have seen or spoken with while on their voyage.

All the information thus obtained by Lloyds from agents and shipmasters from all parts of the globe is next analyzed and distributed for the benefit of underwriters and subscribers. This brings us to the next important feature of Lloyds, namely, its publications. These are five in number, namely:

(1) *Lloyds List*. The official daily publication of the corporation containing all shipping news as currently received, and generally recognized as the most reliable among the various sources of maritime intelligence.

(2) *Lloyds Register of British and Foreign Shipping*. An annual publication founded in 1834, and designed to indicate the general character of all vessels in the British marine of not less than one hundred tons, besides numerous vessels in foreign fleets. Among other items, this publication states the name, materials of construction and state of repairs of the ship, its dimensions, registered tonnage, and general equipment, the date and place of construction and by whom constructed, the name of the owners, the port to which the vessel belongs, and the date of the last survey, and, finally, the name of the master and the date of his appointment. To keep the shipping world informed of any variations which may occur, supplementary lists are published monthly in connection with the annual edition of the *Register*. In other words, this annual register may be likened to a catalogue of nearly all the important vessels of the world, from which the underwriter may ascertain by a hurried reference the general fitness of a specified vessel to make a given voyage or carry a certain cargo. To render such reference on the part of the underwriter still easier, both iron and wooden

vessels are each divided into separate classes, and these classes into grades, each grade being designated by a conventional symbol.³ *Lloyds Register* is thus the hand-book of the underwriter; but it should always be kept in mind that while it is of the greatest service to those who accept marine risks, it is controlled by authorities of its own, and is an institution entirely distinct in its organization from the corporation of underwriters.⁴

(3) *The Index.* A list of all British mercantile vessels, together with numerous foreign ships, showing their condition and location according to the latest reports. This publication is not only open to inspection at Lloyds, but members and subscribers, wherever situated, may upon request obtain the latest news concerning any particular vessel.

(4) *A Register of Captains.* A biographical dictionary containing a record of the service, proficiency and character of the twenty-five thousand or more certified commanders of the British marine, and

(5) *A Record of Losses*, frequently called the Black Book.

Turning now to the Corporation of Underwriters, as distinct from the Intelligence Department, it is of interest to note that its membership consists of two classes: (1) The underwriting members

³ Since the classification of vessels is fundamental in the shipping and insurance business, the importance of a publication like *Lloyds Register* cannot well be overestimated. Its influence became so potent a factor in British shipping that other nations were obliged to adopt a similar system, until to-day *Lloyds Register* constitutes the standard after which all other maritime nations have modelled their own Registers. To such an extent has classification of vessels become a necessary adjunct to the shipping industry, that practically no vessel of any importance in any nation is without a regular classification in some standard register. Chief among the registers now published in addition to *Lloyds* are the *Register of American Shipping* and the *American Lloyd* of the United States, the *Bureau Veritas* of France, the *Germanische Lloyd* and the *Stettiner Register* of Germany, the *Austro-Ungarian Veritas* of Austria, the *Nederlandische-Werkenring* of Holland, the *Norske Veritas* of Scandinavia, and the *Veritas Hellings* of Greece.

⁴ In the modern system of classification, as Professor Gambaro explains, "ships are divided into three classes, according to the degree of confidence to be placed in their seaworthiness. A vessel recently and strongly built, well rigged and equipped, is assigned for a number of years to the first class, and may, therefore, during such period be employed with full confidence in any voyage, for the conveyance of any kind of merchandise; provided, of course, that she suffer no deterioration or damage as may render her unserviceable, and be maintained in good state of repair, which is ascertained by periodical surveys. A second term of the same class is often granted to ships proving still strong and in a good state of preservation after the first period. A special distinction over and above the highest classification may be obtained for a ship provided such materials be used in her build as directed by the committee. Vessels which have gone through this first class term are assigned to the second, and lastly, to the third class; the latter embracing vessels in very poor condition, considered fit only for short and easy voyages, and to carry cargoes not to be damaged by sea-water, such as timber, salt etc." Gambaro's *Lessons in Commerce*, p. 137.

who write insurance for their own profit, subject, of course, to the rules and requirements imposed by the managing committee of Lloyds, and (2) the non-underwriting members, who, as brokers and merchants, transact business through the underwriting members either for themselves or others. In addition to these two classes, there are also numerous subscribers to Lloyds for the information received at the Royal Exchange, many of whom are British and foreign insurance companies. Here it remains to be said that practically all the great marine insurance companies of the United Kingdom (and they number some thirty or more), even though their marine business in the aggregate far exceeds that of Lloyds, must nevertheless be represented on its floor, and must necessarily and continually receive the assistance of that organization in the prosecution of their business.⁵

As a corporation Lloyds resembles our stock exchanges in many particulars. It assumes no responsibility whatever for the solvency of its members. It seeks only to provide proper facilities to its members for the conduct of their business, and to limit admission to men of recognized honesty and financial standing. As a guarantee for the fulfillment of contracts, each underwriting member is required to deposit with the committee of Lloyds securities to the value of £5,000. Aside from this requirement, the corporation does not concern itself as to the nature or the volume of the business transacted by its members. They are free to do as much underwriting as they like, and may pursue any kind of insurance they choose, only they must do it honestly. As a consequence Lloyds, although marine insurance and the furnishing of maritime intelligence is the fundamental character of its business, is a place where one may insure against all sorts of contingencies,—against fire, epidemics, sickness and all sorts of accidents, against the risks of journeys and business ventures, against the loss of works of art and valuable possessions, or to avoid loss from the unforeseen stoppage of games and races, or to meet contemplated changes in foreign tariffs, or to provide against the risks of war during periods of political excitement, and a hundred and one other contingencies of every conceivable kind, many of them nothing more than betting

⁵ For a concise account of the organization of Lloyds and an excellent description of its system of classifying vessels and distributing marine intelligence see Professor Gambaro's "Lessons in Commerce."

arrangements. Combining all these different forms of indemnity with the marine business, authorities place the total amount of risk carried at Lloyds at approximately \$2,500,000,000, while the total deposits paid in by members as a guarantee for the performance of contracts are placed at not more than \$20,000,000, or about only one per cent. of the risks assumed.

In its daily routine of business Lloyds affords an interesting and instructive spectacle, and illustrates the complexity and arbitrary nature which surrounds a good share of the business. On the Exchange, for example, are several hundred underwriters, unincorporated and unable thus to act jointly. To describe the manner in which these members transact business, I can do no better than cite from Mr. Samuel Plimsoll's concise and picturesque account. "There are seldom," he says, "less than fifty underwriters on a policy, frequently over one hundred (the three policies before me show an average of seventy-two subscribers), not bound together at all, each individual can only act for himself, and accepts just so much of the whole risk as he pleases; he seldom, almost never, accepts for any large amount, always for a very small proportion indeed of the whole amount covered. The way of it is this: A member of Lloyds (underwriters' room) first gives evidence or security as to his ability to pay losses; then he has a desk allotted to him (they are very numerous—between three hundred and fifty and four hundred in London alone, where, however, the bulk of underwriting is done); the proposals of insurance are handed around by the insurance brokers' clerks all day long; these proposals, called slips, give the name of the ship, amount to be insured, and rate per cent. offered. Perhaps sixty or seventy of these slips, or even more, are laid before each underwriter daily. After reference to Lloyd's List of Ships, he either passes it on or, if he decides to 'take a line' upon it, he subscribes or 'underwrites' his name, together with the amount he is willing to guarantee for at the rate specified; this varies much and generally goes as low as £200 or £100, frequently £50, and sometimes even less than that—*never* an amount large enough to warrant his disputing his liability in case of loss."⁶

As a result of the procedure thus described by Mr. Plimsoll, it follows that the underwriter at Lloyds has practically no oppor-

⁶ Samuel Plimsoll. *The Nineteenth Century*, Vol. XXV., p. 329.

tunity to examine the risk as he would do in other leading forms of insurance. The only sources of information which he might use as a guide are, as a rule, the publications of the corporation like the *Annual Register*, the *Captain's Register*, and *Lloyds' List*. From these he may obtain useful information concerning the age, size, structure, equipment and management of the vessel as based on frequent surveys by expert surveyors. But naturally such classifications have their limits, and do not purpose giving more than a general description of the vessel in question. Concerning many factors like stowage, the amount of load, the size and efficiency of the crew, and numerous other factors equally vital to the safety of a vessel and cargo at sea, these publications can offer no assistance. It is here that the insurer must use his judgment and where success is largely dependent upon the specialized ability of the underwriter. Nor would it be to the interest of the insurer at Lloyds to make such an examination, assuming that he could do so. Not only will his limited time and the large number of proposals made to him daily render this impossible, but the mere fact that probably half a hundred other persons have underwritten the same policy will make it seem foolhardy that he alone should undertake the examination. To retain his business he must be quick in accepting or rejecting proposals on the spot, and cannot afford to tarry, since it is the brokers' business to secure insurance for his patrons as quickly as possible. Moreover, the amount of the total risk to which he has subscribed is, as we have seen, comparatively small and limited to an amount which will not make it worth his while to contest a claim or pursue an examination. And even if the underwriter be a subscriber for a large amount it does not necessarily follow that he will be actually liable for the amount underwritten, for as soon as he fears having sustained a loss he will endeavor to transfer his risk. This he does by offering a higher premium as an inducement for some one else to take all or a share of his risk. One underwriter fearing a loss thus transfers part of his risk to another, who expects the early and safe arrival of the vessel. If uncertainty concerning the vessel continues, this second underwriter by offering a still higher premium may transfer part of his risk to another, who again has good hopes, and so on until, if it is finally learned that the vessel and cargo are lost, the risk has been so widely diffused that the loss incurred by any one individual is comparatively small. Lastly, it is

interesting to note that collectively the underwriters at Lloyds have no interest in examining risks because they have no interest in diminishing loss. On the contrary, strange as it may seem, they express a preference for a high rate of loss to a low one. Individually they all desire and expect to avoid the payment of claims, but collectively they all wish and expect to profit by high rates. Hence it is that they prefer the increase in premiums which accompanies an increase in losses.

Development of Marine Insurance in the United States.

A review of marine insurance in the United States shows that its development as well as its present status is radically different from that in England as just described. In the first place, the business has been conducted almost altogether by corporations, the Lloyds system of underwriting, though often tried, having never obtained a prominent foothold in this country. Secondly, while British companies have had a long and prosperous career, the companies of the United States, with few exceptions, have either failed or changed the character of their business. If we are justified in fixing definite limits, the development of the business in this country seems to divide itself into four main epochs, each with distinctive characteristics of its own. The dates of these periods may be roughly placed at 1793 as marking the end of the first period, 1793 to 1840 as indicating the limits of the second period, 1840 to 1860 the third, and 1860 to the present time the final period.

During the first period, extending to the end of the eighteenth century, the only form of insurance upon goods or vessels of which we have definite knowledge was by personal underwriters. Resort was had at first to the private underwriters of Great Britain, frequent mention being found in early colonial correspondence concerning London indemnity for American shipping. Even as late as 1721 there was as yet no insurance office in Philadelphia, dependence being placed mostly upon foreign underwriters. In that year we find a Mr. John Copson, advertising in the *American Weekly Mercury* of May 25, the opening by him of an office of public insurance on vessels, goods and merchandise, because, as he announced in the advertisement, "the merchants of this City of Philadelphia and other ports have been obliged to send to London for such insurance, which has not only been tedious and troublesome, but ever pre-

carious, and for the remedying of which this office is opened." Four years later Mr. Francis Rawle, of Philadelphia, advised the establishment of a marine insurance office under colonial legislative sanction, and the pamphlet embodying his ideas was, according to report, the first work issued from Benjamin Franklin's press. Following Mr. Copson's and Mr. Rawle's pioneer attempts to establish insurance offices, few efforts were made to follow in their footsteps. Mr. Fowler, in his history of insurance in Philadelphia, informs us that for seventy years afterwards Philadelphia merchants still looked to the Old World as the chief source from which to obtain their insurance. Likewise in New York City it was not until 1759 that the first marine insurance office was opened, and not until 1778 that the New Insurance Office was established. The underwriting in all these cases continued to be by individuals or partnerships only, who generally represented wealthy citizens of the community.

It was not until near the close of the eighteenth century that a number of citizens of Philadelphia succeeded in inducing the General Assembly of Pennsylvania to charter a marine insurance company, capitalized at \$600,000. The reasons assigned for this step by the legislative committee reporting in favor of granting the charter were: (1) That an incorporated company of this size could conduct an insurance business on a safer and more staple basis than could individuals; (2) that from a legal point of view justice could be secured more readily in the case of a corporate organization, since it would obviate the expense and loss of time required to sue separately all the different underwriters to a policy; (3) that the number of persons underwriting in Philadelphia was insufficient for the needs of its commercial interests, thus occasioning a drain of money for insurance to Europe and neighboring states; and, lastly, that since the company did not ask for a monopoly, the granting of the charter would simply mean the bringing about of a wholesome competition, and would enable the business to be conducted on an enlarged scale to the great benefit of commerce. In view of these reasons thus offered, the Assembly, in the year 1794,⁷ chartered the Insurance Company of North America, the first stock company of its kind upon the continent whose name it bore. Fortunately this pioneer company was launched at a time when Philadelphia was still the commercial metropolis of the country, with its

⁷The Insurance Company of North America began business as an association in 1792, and was incorporated in 1794.

shipowners and merchants trading in all the remote quarters of the globe, and, therefore, large purchasers of insurance. Indeed it was not long before the brokers, who previously had had the American business to themselves, found that their patrons preferred the stability of corporate underwriting on a large scale to the underwriting of individuals. In the very first year of active business the company refused to write for private offices, and "realizing its strength, made public advertisement of their rules, and invited orders to be addressed directly to the company."⁸

This important step toward the establishment of corporate underwriting with all its advantages was soon to serve as a model for similar undertakings in other parts of the country, and before another decade had passed the Insurance Company of North America was to have active associates in its own home as well as in New York, Boston, Baltimore, Charleston, and other places. In 1796 was established the Insurance Company of New York in New York City, followed by the Associated Underwriters of the same city in 1797, the United in 1797, Columbian in 1801, Washington Mutual in 1802, Marine in 1802, Commercial in 1804, Phœnix in 1807, Fireman's in 1810, Ocean in 1810, and others. In Philadelphia there followed the Insurance Company of the State of Pennsylvania in 1794, the Phœnix in 1803, the Philadelphia in 1804, Delaware in 1804, Marine in 1809, and the United States in 1810. Boston also came into the field at an early date, the Massachusetts Fire and Marine Company being organized in that city in 1795, and the Boston Marine in 1799; while among other early companies of importance may be mentioned the Charitable Marine Society of Baltimore, organized in 1796; the New Haven Insurance Company, of New Haven, in 1797; the Charleston Insurance Company, of Charleston, S. C., in 1797, and the Newburyport Marine, of Newburyport, Mass., in 1797. So rapid, in fact, was the movement of incorporating insurance companies that prior to 1800 thirty-two insurance companies had been established in this country, of which ten were doing a marine business. By 1811 there existed in Philadelphia alone eleven companies, seven of which were marine companies and one a fire-marine company, while by 1825 there were twelve marine stock companies in New York, and at least a dozen in Boston.

⁸ *History of the Insurance Company of North America*, p. 56.

Prior to 1830 the history of these companies may be characterized as one of periodical prosperity and depression. If judged by the experience of the largest company (and this is typical of most other companies) the business exhibited the greatest fluctuations. Thus during the first decade of its history ending with December, 1802, the Insurance Company of North America collected premiums of \$6,037,456, and paid losses of \$5,500,887, leaving a margin of less than 9 per cent. for expenses. During this decade the premium receipts rose from \$213,465.31 in 1793 to \$290,656.83 in 1794 and \$1,304,208.91 in 1798. This large income, received by an American company prior to the beginning of the nineteenth century, it is interesting to note, is equal to three-fourths of the marine premiums received by the same company to-day, and exceeds the marine premium income of any other American company at the present time except one. Then began a decline, until in 1802 the premium income amounted to only \$103,902.26, which sum, however, was trebled in 1805, and again trebled in 1806. Then came the Embargo Acts and premium receipts suddenly fell to the mere pittance of \$5,483.55 in 1808, while losses continued as high as \$108,568.93. Even in the years 1809 to 1812, inclusive, the average annual receipts equaled but \$45,449, as compared with \$1,304,000 in 1798. If the decade ending in 1802 is compared with that ending in 1812, it appears that the first shows premium receipts of \$6,000,000 and losses of \$5,500,000, while the second shows premiums of only \$1,364,637, or only one-fifth the income of the first decade, and losses of \$1,583,836.47.

These remarkable fluctuations, as also the decrease in the annual premium receipts and the increase in the ratio of loss to income, are to be explained partly by the growing competition arising from the numerous rival institutions which were springing up everywhere; partly because insurance managers had not yet mastered the lesson of a solid surplus and very imprudently distributed all profits to stockholders without making provision for the heavy losses of the immediate and stormy future; but mainly to the heavy losses connected with the Napoleonic Wars. This series of bitter struggles, with its blockades and counter-blockades, affecting practically all of commercial Europe, subjected American commerce to unusual risks and losses. Insurance was consequently in great demand and came for the first time to be regularly adopted by all shipowners, and at rates which averaged as high as twelve per cent.

But while the business of marine insurance received a strong impetus during this period of strife, the business was, nevertheless, of uncertain tenure, being constantly subject to the heavy losses arising from capture, detention, and litigation which frequently resulted, owing to the absence of a large surplus, in severely impairing the capital of the companies. Mr. Seyfert, for example, in a list compiled from a report of the Secretary of State, shows that the total captures of American vessels by the British, French, Neapolitans and Danes during the years 1803 to 1812 aggregated nearly 1,600 vessels, the major portion of which were condemned, and most of the others detained. At the same time we have the statement made in the House of Peers that 600 American vessels were seized or detained in British ports within a period of less than five months from November 6, 1793, to March 28, 1794.⁹

Such extraordinary losses by capture and detention were bound to prove a heavy drain on the resources of the companies. And in those days of slow communication it would often happen that they might be incurring heavy losses at the hands of foreign cruisers without being able to obtain knowledge of the same for months, in the meantime assuming new risks equally exposed to the attacks of the enemy. To obtain a clear conception of the losses thus sustained one need only examine the proceedings of a few companies of this period. On February 12, 1801, the directors of the Insurance Company of North America "ordered that an account of all illegal captures made by the British and French be made out for the purpose of representing the same to the United States Government."¹⁰ No better evidence can be advanced to indicate the severity of the struggle which the early companies were undergoing than the account of the committee entrusted with this work. Its report stated that "the number and amount of the companies' claims on the British Government for spoliation on property which they (the committee) think that nation ought to refund is about \$981,355; other losses occasioned by this office by capture of the British and for which there is no expectation of reimbursement, is about \$78,800. With respect to the captures made by the French, your committee can only state that they amount to \$1,952,730."¹¹ Many of the claims thus incurred were later adjusted by international arrangement. Others, however,

⁹ Adam Seyfert. *Statistical Annals of the United States*, pp. 79-81.

¹⁰ *History of the Insurance Company of North America*, p. 56.

¹¹ *Ibid.*

were not, and numerous attempts were made in later years to recover losses sustained during this period. No less than twenty-two reports of committees, all favoring the claimants, were made in Congress between the years 1827 and 1846 for an indemnity of \$5,000,000. Twice, in 1846 and 1855, did the bills pass through all stages of enactment except the President's signature, and even as late as 1885 we find the matter still before Congress.

With the cessation in 1815 of the widespread Napoleonic wars of twenty-three years and the introduction of a period of profound peace one might have supposed that the business would have immediately revived. But such was not the case. The high war rates gradually gave way before low peace rates, and by 1820 these were the general rule. By this time, too, personal underwriters had been almost entirely displaced by underwriting corporations whose number had greatly multiplied in all the leading seaports. To make matters still worse, in view of the rapidly declining rates, these numerous corporations began to wage a fierce and incessant competitive war against each other. The elimination of the personal underwriter meant the establishment of the broker as middleman, and soon the numerous companies in the various leading commercial centers no longer confined their business activity to their own locality, as they had done heretofore, but began to solicit risks from the outside by correspondence and otherwise. As a result of this rate-war, many of the younger companies were brought to the verge of insolvency, and most of the older ones were unable to pay dividends on their capital equal to the current rate of interest. So great was the competition that at the close of 1825 the stock of only four of the twelve stock companies in New York was quoted at or above par. Beginning with 1828 marine insurance companies were also obliged to pay extraordinary losses occasioned by fraudulent wrecks on the Atlantic, Gulf and West India coasts. Estimates place the losses incurred in this way at one-third of the total loss sustained by companies during the twenty years preceding 1840.¹² It was not till 1844 that the companies of Philadelphia, for example, managed to organize a protective association, through whose action these heavy losses by fraud could be averted.¹³

Beginning with the fifth decade, the business again showed signs

¹² Albert Boles. *Industrial History of the United States*, p. 820.

¹³ *Ibid.*

of gradual revival, and the twenty years following 1840 may be justly characterized as the "golden period" of American marine insurance. It was during these years that the American clipper ship received its highest development, and became probably the most efficient carrier in the world. Our tonnage in the foreign carrying trade increased from 762,838 registered tons in 1840 to 2,496,894 tons in 1861, the highest point ever reached in our history, and a tonnage nearly two and one-half times as large as the largest tonnage registered for any single year prior to 1840. Along with this remarkable increase of 1,734,056 tons in twenty years, American vessels continued during these two decades to carry on an average seventy per cent. of the combined imports and exports of the country, the proportion in some years running as high as 81 to 83 per cent. It was also during this epoch that American trade with the Far East and other remote parts of the globe became more prominent than ever before. Unlike the practice in modern commerce, the merchants in those days were largely the owners of the ships which carried their cargoes, and naturally they insured both in American companies. The voyages, as a rule, were long, extending in many cases over six or nine months before the vessel was heard from. The risk was thus very considerable, insurance was an indispensable necessity greatly desired, and rates ranged as high as five to six per cent. We are told that even between New York and Liverpool the rate on dry goods was as high as two per cent. compared with the existing rate of between one-eighth and one-tenth of one per cent. on our modern steamers. All these factors—increasing commerce under American ownership, long voyages of a risky nature, and high rates—combined to give to marine insurance during this period an impetus such as it had never experienced before.

But this period of unparalleled growth proved to be but temporary, and was followed by an epoch, extending to the present, as disastrous to the business as the preceding period had been beneficial. For many years marine insurance had kept in the forefront of our commercial life, and could indeed be ranked with fire insurance in importance. It began to show unmistakable signs of decay, for reasons to be mentioned shortly, when the American flag began to vanish from the sea. This decline has been continuous and unchecked. In fact, during the last thirty-five years marine insurance by native companies has had to struggle for its life. How

severe this struggle has been, and how severely the business has suffered may be inferred from the fact that since the organization of the first company in New York, in 1796, some thirty companies have been chartered in that state, and of this number only three, the Atlantic Mutual, the Home and the Greenwich Insurance Companies, still continue to do business. To recite the history of the business in our other commercial states is merely to repeat its history in New York. In all marine insurance once flourished, but in all it has largely disappeared.

Reasons for the Decline of the Business.

But why this decline? it will be asked. The answer is that two main causes have contributed, namely, competition of foreign companies, and changed business conditions. Owing principally to the introduction by England during the fifth and sixth decades of the last century of iron as shipbuilding material and coal as fuel, just at the time when the United States had not yet developed its iron and coal resources, and when the attention of the country was turned away from the sea to the development of the interior, the American wooden ship, which up to this time had been an important factor in international trade, began for the first time to feel seriously the effects of foreign competition. Immediately following the introduction of the iron steamship by England came the Civil War, with its heavy losses for marine companies, with its heavy taxation of American commerce, with the almost complete cessation of the important cotton trade and the trade with the Southern States, with the capture and destruction of Union ships by Confederate cruisers, with the transfer by sale of a large portion of American tonnage to foreign countries, and, in general, the complete demoralization of American shipping. The direct effect of these various factors, growing out of the Civil War, upon our marine insurance companies can scarcely be overemphasized. To illustrate how the prosperity of the business in the preceding period vanished shortly after the commencement of hostilities, we can do no better than consult the annual reports of the New York Insurance Department, since the experience of the companies here is but typical of that in other states. In the report of 1862 the Superintendent of Insurance states "that the disorders and complications resulting from the insurrection of several

states during the last year have necessarily affected to a considerable extent the business of our marine companies; but an examination of their statements will show that the well-established reputation of our marine underwriters is enhanced by their successful transit over this ever memorable year. With the single exception of the Anchor no failures have occurred among the companies." In the report of 1863 we again find that "not a single company is blotted out." But the companies could not continue to fight successfully against overwhelming misfortunes. In 1864 we note that two important companies failed; and in 1865 occurred the failure of the Columbian, with outstanding unpaid losses of \$3,470,000. According to the report for 1865 the incomes of the marine insurance companies in New York showed that only one of the eleven companies in the state received more than it expended during the year, the total net excess of expenditures over income being \$1,458,309, not counting the heavy losses of the Columbian. While the ratio of marine and inland losses paid to premiums received in the United States in 1864 amounted to but 47.43 per cent., that ratio rose to 71.64 per cent. in 1865 (not including the losses of the Columbian) and to the extraordinary ratio of 83.13 per cent. in 1866. Although the premiums in 1866 were increased \$3,223,199 over the year 1865, the losses exceeded those of 1865 by \$3,938,606; while the gross expenditures of the companies exceeded the gross income in the sum of \$1,243,000, thus causing the Superintendent of Insurance to report that "the present fearful percentage of loss is too excessive and must in some manner be reduced, and not merely covered by insurance." Before business conditions could again become staple, the number of marine insurance companies in New York had been reduced by failures from fourteen (the number in 1861) to nine in 1867, while nearly all which survived were no longer the prosperous companies of the preceding decade.

But there were also indirect effects growing out of the Civil War and the competition of the iron steamship quite as important as those just mentioned. All the factors enumerated above, coming in close succession and at a most critical time, gave Great Britain the opportunity which she was only too quick to seize, to monopolize the construction and operation of the world's shipping. As a consequence, the tonnage of the United States engaged in foreign trade has gradually declined to 888,628 tons in 1864, or only one-third of

what it was in 1861. While the United States carried seventy-five per cent. of our total imports and exports in its own ships during the two decades from 1840 to 1861, that proportion has steadily declined until it is less than eight per cent. to-day.

Now, hand in hand with the steady decay of our merchant marine after the war, there followed a corresponding decline in the magnitude and prestige of the marine insurance business. Great Britain was capturing the carrying trade of the world, and British merchants and shipowners were just as naturally giving their patronage to their own underwriters, as American merchants and shipowners had insured in American companies while our carrying trade was still in its glory.

But British underwriters were doing more than merely acquiring business which formerly had gone to American companies. They were consciously pursuing a policy, whether justly or unjustly it is not our purpose to state, which aimed to give preference to their own flag on the sea through inspection and classification at Lloyds, and through these channels the fixing of insurance rates. The essential features of this policy may be enumerated as follows:

(1) To grade vessels not so much with reference to their design and sea-going capacity, as according to their intrinsic quality as measured largely by the cost of construction and repairs. This meant discounting the sea-going worth of the American clipper ship.

(2) To favor British-built vessels and British ship-building materials in the matter of inspection and classification. One writer even goes so far as to state that "nothing 'foreign' has ever received the highest rating from Lloyds."¹⁴ Especially in the rating of timber for shipbuilding purposes has this policy manifested itself most clearly. At no time has American timber been graded the same in years as timber of British origin, the best white oak of the United States being allowed but two-thirds of the time given to British oak. From the beginning, too, Lloyds has observed the rule not to grant a full class to any vessel unless the date and place of building is announced, and the construction has taken place under survey. At the same time, even before iron shipbuilding began in England, Lloyds never appointed surveyors to inspect the construction of foreign wooden vessels.

(3) To protect and foster metal and steam tonnage and to make

¹⁴ William W. Bates. *American Navigation*, p. 303.

the British iron steamship, the construction of which was for many years practically monopolized by Great Britain, the standard in international trade. Such a policy was bound to hasten the decline of American shipping. Underclassing the American wooden ship by Lloyds meant in actual practice a very considerable decrease in the chances for speedy and profitable employment. In 1870, Lloyds refused to classify and register foreign wooden vessels except on special survey and for a period not exceeding one year. The object was to encourage the chartering of British vessels in preference to wooden ships, and the effect of the rule was to obtain for Great Britain a large part of our carrying trade.

Evidence seems to show that marine underwriting has not declined in the United States because American companies have failed to meet the rates of foreign underwriters. Instead, the decline must be attributed to the decay of our merchant marine engaged in foreign trade, and among the numerous causes mentioned as instrumental in bringing about this result, the policy of Lloyds must be classed as one. As Mr. Bates says: "It was rare indeed that a British policy covered an American hull. The purpose was to mark the American ship with *inferiority* in the *Register*, thereby to prevent ready employment and full rates of freight. And yet, in order to get cargoes that were bound to be covered by British insurance, it was necessary to hold a class of some grade in Lloyds *Register*."¹⁵ Whatever the purpose of the various regulations adopted by Lloyds may have been, whether based justly on the relative merits of vessels or not, they did, at a most critical period in the history of our merchant marine, represent American ships to the world as an inferior type, did contribute toward the decline of the American marine by decreasing its chances of profitable employment, and by helping thus to transfer the carrying trade from the United States to Great Britain, did contribute to the growth of marine insurance abroad and toward its decline here.

Foreign underwriters, however, were not satisfied with getting the American business that came to them at home, but began in the early seventies to invade American territory itself. To ascertain the rapidity of this movement we may again consult the insurance reports of New York, the experience here being typical of that in other leading commercial states. In the report of 1868 the Superin-

¹⁵ William W. Bates. *American Navigation*, p. 305.

tendent of Insurance states that "no foreign marine insurance companies have ever been admitted by this department to transact business in the state of New York"; while the report for 1871 shows only one foreign company as compared with nine New York companies. By 1872, however, there were four foreign marine companies transacting business in New York; while by 1874 the number had increased to seven. This increase in the number of foreign companies has continued, so that while to-day there are only three New York companies of any importance transacting marine insurance in that state, there are fifteen foreign companies.

In entering American territory foreign companies were materially assisted by the lenient laws of some of our states requiring of foreign companies, as a prerequisite for admission, a deposit only equal to the minimum capital demanded of domestic companies. They began their onslaught by cutting rates, and the American companies, probably too few in number by this time or otherwise unable to effect an efficient combination in opposition, were compelled to follow suit. Then began a period of the most active competition between domestic and foreign companies, the result of which, in view of the other unfavorable attending circumstances already mentioned, meant the gradual forcing of American companies out of existence.

In this competition the foreign competitors had the advantage of the much better organization and the much greater financial strength acquired at home during their much longer existence, and could, therefore, afford to assume much larger risks based on their home capital. The small American companies, on the contrary, though their assets might be considerably in excess of the assets actually held by foreign companies in this country, were, nevertheless, for the reason mentioned above, limited to a much smaller aggregate of risks. To distinguish between the efficiency of the two classes of companies in this respect one need only examine the data concerning foreign companies as given in the *Insurance Year-Book*. Of twenty-seven leading British marine companies mentioned here in 1902, twenty, or three-fourths, confine themselves solely to the writing of marine risks, while in the United States nearly all companies transacting a marine insurance business place their greatest reliance upon the fire insurance branch of their business. Moreover, most of the early American companies

have ceased doing business and only a few (the leading ones) have had a long and continuous existence. In the United Kingdom, on the contrary, of the twenty-seven companies referred to, eight were organized prior to 1837, three considerably before the beginning of the nineteenth century, and all except four have had an existence of at least a quarter of a century, and most of them much longer. During this long and, on the whole, prosperous existence these companies have accumulated enormous assets, thus giving them an advantage over American companies, a fact which becomes clear when we reflect that the eight principal English companies doing business in the United States to-day have assets at home exceeding \$50,000,000. "The financial position of nearly all the British marine companies," according to the Insurance Supplement to *The Statist*,¹⁸ "is of such strength that even an unusually long period of adversity could be faced with equanimity. By a long process of limiting dividends they have acquired funds so large that policyholders are most adequately secured, while at the same time the interest earnings are sufficient, or nearly sufficient, to provide for the maintenance of the present rate of dividends. Thus even very moderate trading profits are amply sufficient steadily to increase the financial security. . . . To show the great and increasing financial strength of the marine insurance companies it should be noted that the accumulated funds have increased 38 per cent. during the decade 1893-1903, the premium income has only risen 14 per cent., and the proportion of the former to the latter has risen from 177 to 217 per cent. Thus the invested funds represent over £2 for every £1 annually received from policyholders, an exceedingly satisfactory position from all points of view. . . . In fact, the financial position of most of the offices is so strong that temporary profit fluctuations may be disregarded, and in many cases present dividends could be maintained even if the companies undertook no more business whatever."

The truth of the above summary is borne out by a consideration of the dividends paid and the interest earnings of the thirteen principal British companies (nearly all of which operate in the United States) during the years 1901 to 1904. The last three years of this period have been marked by a severe depression in the shipping industry, and consequently marine profits have been below the average.

¹⁸ Supplement to *The Statist*. May 6, 1905, pp. 27 and 28.

Yet the annual dividend of only two of these companies averaged as low as six and seven and one-half per cent., respectively, during the period; in six companies it averaged between ten and twenty per cent.; in four between twenty and forty per cent.; and in one 44.5 per cent. In eight companies the average annual interest earnings on the accumulated funds exceeded the large dividends paid, and in the remaining five were nearly as large. Moreover, the average annual surplus of these companies, after deducting from the net premium income of the year the actual losses paid, all expenses, dividends, and appropriations to the suspense account, aggregated \$1,708,000. A financial showing of this kind is especially significant since fluctuations in income are inevitable in a business like marine insurance where the rates and the amount of business, roughly speaking, rise and fall with the prosperity or depression of the shipping industry, the most sensitive to changing industrial and political conditions of any large industry in the world. English companies are to-day our main competitors, but companies of other countries, notably Germany and Canada, are entering the ranks against us. Even on the Pacific coast nineteen foreign companies, unknown to other sections of the country, are doing business, representing England, Germany, France, Italy, Switzerland, China and Japan.

The Business of the Principal American Companies.

In the United States the marine insurance business which is not written by foreign underwriters is controlled mainly by seven domestic companies. According to the state insurance reports, these companies are doing a prosperous business, each collecting over \$400,000 of marine premiums annually. Collectively they received, according to the last reports available, \$8,608,672, or eight-tenths of the total net marine premiums collected by American companies; possessed assets of \$40,782,058, and carried marine risks aggregating \$2,323,000,000. But only one of these companies, the Atlantic Mutual of New York, depends solely upon its marine and inland business, its premium receipts amounting to \$3,013,944, its marine losses to \$1,142,302, and its admitted assets \$12,025,021. The other six companies, considered collectively, depend principally upon a fire insurance business, their fire premiums amounting to \$15,039,227, as compared with \$5,594,728 for marine premiums, thus constituting

nearly three-fourths of their total premium income. The following is a summary of the business transacted by the principal American companies:

Name of Co.	Place and Date of Organization.	Marine and Inland Premiums.	Fire Premiums.	Admitted Assets.	Total Marine Risks Written.
Atlantic Mutual	New York, 1842..	\$3,013,944		\$12,025,021	\$812,142,631
Ins. Co. of N. Am	Philadelphia, 1794..	1,819,199	\$4,994,034	11,259,981	408,428,728
Fireman's Fund Ins. Co.	San Francisco, 1863..	534,364	2,724,792	5,128,535	170,703,287
Federal Ins. Co	Jersey City, 1901..	703,149	103,862	1,731,909	544,097,405
Boston Ins. Co	Boston, 1873..	823,563	633,609	3,814,633	147,730,890
Providence-Washington . Providence, 1799..		412,027	1,495,442	2,392,458	129,696,983
St. Paul F. M. Co.	St. Paul, 1865..	423,814	2,554,566	3,688,243	110,099,007

From the Forty-fifth Report of the Superintendent of Insurance of New York for the calendar year ending Dec. 31, 1903.

Of the numerous other marine and fire-marine companies the following four may be mentioned:

Aetna	Hartford, Conn, 1819..	\$328,238	\$5,109,630	\$15,190,888	\$102,597,362
Home Ins. Co.	New York, 1853..	262,361	7,813,758	18,040,793	80,719,364
China Mutual	Boston, 1853..	293,821	279,886	33,602,158
Greenwich Ins. Co.	New York, 1834..	195,200	1,744,455	2,120,003	53,792,268

For the calendar year ending Dec. 31, 1903.

The Business of Domestic and Foreign Companies in the United States Compared.

The extent to which foreign companies have acquired control of marine insurance in the United States becomes especially clear if one examines the annual financial reports of the various companies. If a compilation is made of the statistics as found in these reports, it will appear that for the year 1903 the total net marine risks assumed by all the foreign and domestic companies operating in the United States aggregated approximately \$6,877,006,221, the net premiums received nearly \$18,000,000, and the admitted assets \$112,912,000. Of these amounts the American branches of the twenty leading foreign companies (to say nothing of the large number of foreign companies operating on the Pacific coast) wrote \$3,723,000,000 of the risks, or 54 per cent. of the total, received \$7,160,335 of the net premiums, but possess only 21,733,958, or less than one-fourth of the admitted assets. Most of these foreign companies also confine themselves solely to the writing of marine risks, only six of the above twenty companies transacting a fire business in addition to their marine business.

Strikingly different is the situation as revealed by the statistics collected from the reports of American fire and fire-marine companies. Thus, there are at present thirty-one domestic marine and fire-marine companies operating in the United States, writing approximately \$3,153,000,000 of net risks, collecting \$10,703,000 of net premiums, and possessing \$91,178,000 of admitted assets. Yet of this large number of companies, it must be remembered that the two largest, the Insurance Company of North America and the Atlantic Mutual of New York, write over one-third of the total risks assumed by American companies (\$1,220,000,000), collect nearly one-half of the total premiums (\$5,180,682), and possess one-fourth of the total assets \$23,285,000). Considering the eleven largest domestic companies, comprising only one-third of the total number, it appears that they write 82 per cent. of the total risks assumed by domestic companies, receive 95 per cent. of the total premiums, and own 83 per cent. of the total assets. The remaining companies are of so little significance from a marine insurance standpoint that they may be eliminated for all practical purposes, a fact which becomes apparent when it is remembered that fourteen of these companies combined collected only \$83,592 in premiums in 1904.

Unlike the foreign companies operating in the United States, the domestic companies depend much more largely on a fire insurance business in conjunction with their marine business. Only five of the thirty-one domestic companies devote themselves exclusively to marine insurance, and of these five companies only two can be classed as important. All the other companies combine a fire insurance business with the marine business, and almost without exception place much greater emphasis upon the former than upon the latter. Thus of the twenty-six domestic fire-marine companies only two do a larger marine than a fire insurance business; in two other companies the marine and inland business is only 34 per cent. and 45 per cent. as large as the fire insurance business; in three only 22 per cent. to 27 per cent. as large; in two only 11 per cent. and 16 per cent.; and in all the remaining companies less than 7 per cent. Combining the business of all the domestic marine and fire-marine companies, it appears that they carry nearly three times as much fire risk as marine and inland risks, and receive nearly four times as much in premiums from their fire as from their marine and

inland business. Indeed, there are many fire insurance companies in the United States to-day whose names clearly indicate that they were at one time fire-marine companies, and whose charters originally entitled them to transact a marine insurance business, but which have ceased altogether to underwrite such risks. Moreover, upon inquiry it was learned from a considerable number of companies that their marine business has been and is decreasing in volume owing to the fact that large foreign marine companies insure entire ship cargoes, leaving only small amounts to be picked up by the smaller companies. Other companies continue to carry each year a small amount of insurance of from several hundred to a few thousand dollars in premiums for the sole purpose of keeping alive that part of their charter which permits them to write marine insurance.

Continuing our investigation still further, it appears that the business of the foreign companies operating in the United States is by no means limited to any particular section of the country, but is general throughout. In the eastern coast states of Massachusetts, New York, Pennsylvania and New Jersey, where over one-half of the country's total marine insurance is transacted, the business is divided nearly half and half between domestic and foreign companies. Domestic companies wrote in 1903 54 per cent. of the total risks and earned 65 per cent. of the net premiums, the greater part of the insurance being for hulls and cargoes of American vessels engaged in the coastwise trade. The business of foreign companies, on the other hand, representing 46 per cent. of the risks and 35 per cent. of the premiums, consists in very large measure of insurance on the cargoes of foreign vessels engaged in our foreign trade.

But foreign companies have by no means confined their activity to our Eastern coast, as might at first be supposed, but have boldly extended their business into the interior of the country, until to-day they control the greater part of the marine insurance business of the Great Lake region. This becomes apparent upon an examination of the insurance statistics as published by the Insurance Departments of Ohio, Michigan, Illinois, Wisconsin and Minnesota. A tabulation of these statistics shows that the nine principal American companies operating in these states (and they transact nearly all the business done by American companies), wrote \$160,345,676 of

marine risks in 1903; the local companies of these five states wrote only \$5,394,358; while the thirteen foreign companies which have entered these states wrote \$249,711,561. In other words, of the \$405,450,000 of marine risks assumed by all companies in the Lake region, foreign companies wrote 61.5 per cent. and received 53 per cent. of the total premiums collected.

In the Gulf region the influence of foreign companies is still more apparent, judging from the experience of the three leading commercial States of Alabama, Louisiana and Texas. In 1904 the marine insurance business transacted by all companies in these states aggregated \$308,508,895 of risks and \$1,648,000 of premiums. Of this business the local companies wrote only 4 per cent., while all American companies combined represented considerably less than one-fourth. Foreign companies, however, representing England and Germany, wrote over 75 per cent. of the risks and received nearly 83 per cent. of the total premiums.

What has been said concerning the gradual control of marine insurance by foreign companies on our Eastern coast and in the Lake and Gulf regions is true to an even greater extent on the Pacific coast. As illustrative of the situation here, California may be taken as the example, since over four-fifths of the insurance on the Pacific coast is written in this state. Thus a review of the last report issued by the Insurance Department of California shows that in 1903 forty-six companies were transacting a marine insurance business in that state, and that of this large number only seven were American companies, while thirty-nine represented foreign countries, nine being located in London, seven in Liverpool, seven in the leading ports of Germany, four in Hong Kong, three in Switzerland, two in Australia and New Zealand, two in Canada, two in Shanghai and one each in Paris, Tokio and Milan. Of the \$210,500,000 of marine risks written in California in 1903 only \$31,500,000 or 15 per cent. of the total was written by California companies, and only \$11,500,000 or 5.5 per cent. by companies of other states. On the other hand, the companies representing foreign countries wrote \$167,499,372 or 79.5 per cent. of the total risks, and collected 73 per cent. of all the premiums paid. Even in the State of Washington where the aggregate risk assumed by marine companies is as yet very small (only \$18,-

069,683¹⁷ in 1903), and where two western companies,¹⁸ the only American companies in the state, have had control of most of the business, eight foreign companies, representing England, Germany, Switzerland and Canada wrote nearly one-third of the business in 1904. These statistics show conclusively that the vast bulk of the marine insurance business on the Pacific coast is now controlled by foreign capital, and that American companies have gradually been forced out of business through undue competition. Local insurance capital and earnings have always been invested in buildings, mortgages, bonds, etc., of the state, subject to taxation, while foreign capital for many years, as President Fowler, of the Insurance Company of San Francisco, said in substance in 1891, "entered the State of California without any deposit or security to protect the policyholders, sending its earnings to the head office, and not contributing one dollar toward the expenses of the state and national government, thus transacting business in California upon more favorable and advantageous terms and conditions than local capital."¹⁹ Under such circumstances, President Fowler points out, that it is not to be wondered at that by 1891 twelve California companies, with a paid-up capital of \$5,600,000 and with annual fire and marine premiums of \$10,000,000, had either failed or retired from business,²⁰ and this decrease in the number of local companies, be it noted, has continued so that while there were five California companies still in operation in 1891, that number has declined to only two in 1903. Moreover, most of the companies to which President Fowler referred had reinsurance in foreign companies with the result that upon their retirement their business simply helped to increase the large volume of business already transacted in the state by foreign companies.

But while the number of foreign companies on the Pacific coast and the volume of their business has increased at the expense of domestic companies, it should be noticed that, despite the increasing importance of San Francisco and other Pacific ports, marine insurance as transacted by insurance companies has, as a whole, shown

¹⁷ In addition to this amount marine brokers transacted \$3,591,485 of business for unauthorized companies during the year 1904, thus giving \$21,661,168 of net risk for the State of Washington in that year.

¹⁸ Fireman's Fund Insurance Company (of San Francisco) and St. Paul Fire and Marine Insurance Company.

¹⁹ For President Fowler's remarks, see William W. Bates' "American Marine," pp. 290-291.

²⁰ *Ibid.*

little tendency to increase for the last twenty years for the reason, as pointed out by the Insurance Commissioner of California, "that nearly all of the steamship companies owning vessels plying in and out of San Francisco are organized and controlled outside of the state, and the tendency of these corporations is either to carry their own insurance or place it outside of the State of California, while the coasting fleet is running practically without insurance. In addition much of the Oriental business is from and with Atlantic ports and is insured on the Atlantic side."

Conclusion.

Viewing the marine insurance business of the United States in its entirety, it is clear that domestic companies are to-day entirely unable to meet American requirements. On the Eastern coast foreign companies claim nearly one-half of the business. The same is true to an even greater extent in the Lake region; while in the Gulf States and on the Pacific coast approximately four-fifths of the business is controlled by foreign capital. Even in our coastwise trade, the one branch of our commerce from which foreigners have been excluded by statute for nearly a century, the largest buyers of insurance place it almost half and half between domestic and foreign companies. Evidence before the United States Industrial Commission tends to show that the home market soon becomes exhausted, and that it is the practice of the principal shipping companies to take all the American insurance they can obtain, and to depend upon foreign underwriters for the rest.

Recently there has also been a marked tendency toward self-insurance. The International Mercantile Marine Company, for example, embracing some of the largest steamship lines leaving the port of New York, announces in its report of December 31, 1903, that "the company has inaugurated a system of insuring its own ships to a large extent, it being deemed that this could be done advantageously and safely with such a large fleet as the company commands" (138 ships). Under this system an insurance fund has been established into which gross premiums were paid in 1903, amounting to \$2,100,523.23, and against which all losses and premiums paid for additional insurance are charged. The insurance department of the company insures the vessels owned by the company against all the

marine risks usually covered by insurance companies, at the market rate for the various services. It also insures the risks on freight and passage money in connection with its own business, and follows the custom of underwriters in placing with regular insurance companies for its own protection a portion of certain large risks which it has assumed. The premiums paid in by the various steamship lines are placed in separate accounts with two banking houses, one in London and one in New York, and thus kept distinct from the company's operating transactions.

While this is the most notable recent example of self-insurance, it should be remembered that this method was practiced on a large scale many years ago. As early as 1867 we are informed by Mr. Hopkins, in his work on marine insurance of that date, that the Peninsular and Oriental Steamship Company possessed not only an insurance system for its fifty-three large steamships, but also insured its passengers, baggage and effects, and issued policies on goods. I am informed by the managers and officers of the largest steamship lines that self-insurance is practiced extensively by their companies in one form or another. While the coast-wise lines and the smaller trans-oceanic lines depend almost entirely upon marine insurance companies for their insurance, it is a fact that in the case of such lines as the great German steamship companies nearly all the insurance is carried by the companies themselves. It is the general rule, however, followed by the German lines as well as the International Mercantile Marine Company, that they refrain from insuring the cargo, and permit this risk to be covered by marine insurance companies.